

Japan Metropolitan Fund Investment Corporation

February 2022 (40th) Period Q&A Session

Q&A Session Summary

Date: Tuesday, April 19, 2022

In the Q&A Session, three participants put forward a total of eight questions. The questions and answers have been grouped under the titles “External Growth,” “Internal Growth,” “Distribution” and “Change of Sponsor,” based on the details of the questions.

【External Growth】

- Q1. : Loss on sales is recorded on the assumptions underlying the forecast for the February 2023 (42nd) period, but JMF declares that its future policy for returning unrealized gains is to sell properties worth 140 billion yen and to generate profit on sales of 7 billion yen or more. In that regard, based on disclosure of the current business forecast anticipating loss on sales, does JMF intend to offset future expected loss on sales with profit on sales? Please provide your thoughts in connection with your future sales strategies.
- A1. : We actually expect to record a loss on sales of approximately 400 million yen in the August 2022 (41st) period. On the other hand, as we have already disclosed, we expect to record a profit on sales of 1.8 billion yen during the period, which will result in a profit on sales of 1.4 billion yen on a net basis. As described in Page 13 of the “Investor Presentation,” asset replacement will continue to be JMF’s key driver for the time being, and the recording of profit on sales can be anticipated over the 40th to 42nd periods. In addition, we expect to record profit on sales even beyond those periods by promoting our replacement strategy, and it is highly likely that we will see continuous gains from profit on sales in the normal course of our business.
- Q2. : Page 3 of the “Supplemental Material on a Series of Press Releases” dated November 30, 2021 describes that “preferential negotiation rights have been obtained for multiple assets with NOI yields after depreciation of 4%.” Please tell us the specific properties.
- A2. : While everything has been disclosed as of now, we assumed the following at that time (the dates in the brackets represent the acquisition dates).
- JMF-Residence Chihaya (January 31, 2022, March 31, 2022)
 - Karuizawa Commongrounds (Land with leasehold interest) (December 15, 2022 (scheduled))
 - Acquisition of additional investment units of Nisshin Private Residential Reit, Inc. (third time) (January 12, 2022, January 13, 2022)
 - Acquisition of new investment units of Hoosiers Private REIT Investment Corporation (March 24, 2022)
- Q3. : Please explain JMF’s NAV control policy. Although the NAV will decline from the sales of

properties with unrealized gains, is JMF going to simply take a neutral stance or control it to a certain degree?

- A3. : The NAV may decline in the future as the result of the sales of properties with unrealized gains. For example, unrealized gains of assets to be sold amount to 7 billion yen, based on our current assumptions. By selling these, the NAV per unit will decrease by 1,000 yen. On the other hand, we intend to increase the NAV by acquiring properties with higher yields through asset replacement and with our cash reserves.

【Internal Growth】

- Q4. : We understand that Panasonic Corporation is looking to move out of the Twin 21 OBP Panasonic Tower, the tower which is being leased to the company, in stages by the end of September 2025. Will there be any changes to the investment policy of this property in the mid-to-long term?
- A4. : There are no changes to the policy, which aims to improve profitability and make a long-term investment. First, Panasonic Corporation is subleasing part of the property to its group company. As there is a possibility that the group company will remain there, we will discuss that in the future. In addition, most recently, leasing was achieved for the neighboring multi-tenant type MID Tower at rent levels 20% higher than the Panasonic Tower. We still have at least two years until the upper floors are vacated, so we would like to be fully prepared. In the meantime, if downtime occurs, we will exercise control to avoid distributions being impacted by allocating reserves and profit on sales through asset replacement.
- Q5. : The operating companies of Kawasui Kawasaki Aquarium, located in Kawasaki LeFRONT, filed for the application of the Civil Rehabilitation Act. Please explain the impact.
- A5. : As reported on March 28, 2022, the operating companies of Kawasui Kawasaki Aquarium became subject to the application of the Civil Rehabilitation Act. The aquarium is currently still open under a new sponsor, and there are no changes to the contract with JMF. They expect to continue its operation going forward, and while we believe that there will be no changes to the contract for the time being, we intend to closely monitor the progress of the civil rehabilitation plan.

【Distribution】

- Q6. : I understand that JMF expects to put an end to downtime and achieve an EPU of 2,250 yen or more on a stable earnings basis with the use of cash reserves. While we have some properties with vacancies in Osaka, the current operation rate of our portfolio is more than 99%, and looking back on the past, we have had almost no requests from our commercial tenants to reduce rents or exempt them from paying rents. I would like to ask about the extent of impact from downtime improvement on the aim of achieving an EPU of 2,250 yen. Also, I would like to know whether earnings improvement from property acquisition and property replacement with the use of cash reserves will be central to the measures to increase the EPU, rather than downtime improvement.

A6. : Downtime improvement will play a central role in our growth strategy for EPU which excludes profit on sales. About 1% of our overall portfolio have uncollected rents, and we will work to resolve downtime with properties such as G-Bldg. Shinsaibashi 03, which has been experiencing those issues. In addition, many leasing descriptions for each property are presented in the “Investor Presentation” for this period. Properties which had been experiencing vacancy issues at the time of the earnings release for the previous 39th period are doing well with their leasing. We believe that the EPU will increase above 2,250 yen from resolving those downtimes. In addition, we would like to further accelerate increase of the EPU through the reduction of costs by refinancing and acquisition of properties using 20 billion yen of cash reserves.

【Change of Sponsor】

Q7. : With KKR becoming the new sponsor of JMF’s asset management company, we understand that JMF is looking to use KKR’s broad network for its external growth. We would like to have an image of what specifically what that means. For example, are there ideas of accelerating M&A strategies through real estate deals, not just listed REITs, by using KKR’s M&A know-how?

A7. : While the transfer of shares to the new sponsor KKR is yet to be completed, we have already started having meetings with KKR and are discussing the sponsor’s overall support, including property acquisitions. In particular, as for property acquisitions, we are discussing in detail how we can collaborate with KKR managed PE and infrastructure funds. For example, besides our discussion on Seiyu and the sale of the head office building of the manufacturing company, the circumstances of KKR in the past were that there were no staff who handled real estate in Japan. They had been selling properties externally, but going forward, JMF could consider the purchasing in the case of offices. In addition, in terms of M&A opportunities, by using KKR’s know-how, JMF may carry out M&A with diversified REITs or specialized REITs. For example, if we look at the past case of Invesco Office J-REIT, Inc., we think we could have participated as a white knight.

Q8: Will there be changes to the borrowing cost due to the change of sponsor? Please provide your comments in light of the negotiations with the lender.

A8. : We have already started negotiating with the lenders. This has been well received as KKR has a strong relationship with Japanese banks. However, there have been adjustments due to changes in responsible departments within lenders. In addition, rating agencies have provided their comments that there are no changes to the ratings for the time being.

-
- This material may contain information such as data on future performance, plans, management targets, and strategies. Such descriptions with regard to the future are based on current hypotheses and assumptions about future events and trends in the business environment, but these hypotheses and assumptions are not necessarily correct. As such, actual results may vary significantly due to various factors.
 - This document was prepared based on Japanese accounting principles unless otherwise noted.
 - This document is to be used for analyzing the financial results of JMF and was not prepared for the purpose of soliciting the acquisition of JMF's investment securities or the signing of financial instruments contracts. When investing, we ask investors to invest on their own responsibility and their own judgment.
 - JMF is a publicly-offered real estate investment corporation (J-REIT) investing in real estate and related assets, the prices of which may fluctuate. Unitholders of the Investment Corporation may suffer loss when unit prices decline in the market or an amount of distributions declines according to economic and interest rate circumstances, the balance of supply and demand for units, the real estate market environment, fluctuations of prices of and rent revenues from real estate properties under management, disasters, deterioration of the financial status of JMF and other reasons. For details, please see "Investment Risk" in the Securities Registration Statement (offering circular) and the Securities Report of JMF.

Asset Management Company: Mitsubishi Corp.- UBS Realty Inc.

(Financial Instruments Dealer Director of Kanto Financial Bureau (Financial Instruments Dealer) Number 403, Member of The Investment Trusts Association, Japan)